



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS
FEBRUARY/MARCH 2010
MEMORANDUM**

MARKS: 300

This memorandum consists of 27 pages.

SECTION A (COMPULSORY)**QUESTION 1**

1.1	1.1.1	C (non-rival) ✓✓		
	1.1.2	B (IMF) ✓✓		
	1.1.3	A (placing a deposit with an American bank) ✓✓		
	1.1.4	B (price taker) ✓✓		
	1.1.5	C (duopoly) ✓✓		
	1.1.6	B (price leader) ✓✓		
	1.1.7	C (is an increase in the level of economic welfare) ✓✓		
	1.1.8	A (SDI) ✓✓		
	1.1.9	C (increases unemployment) ✓✓		
	1.1.10	B (increase) ✓✓		
	1.1.11	A (undersupplied) ✓✓		
	1.1.12	A (pollution) ✓✓	(12 x 2)	(24)
1.2	1.2.1	Leading indicators ✓✓		
	1.2.2	Cartel ✓✓		
	1.2.3	Tertiary sector ✓✓		
	1.2.4	PPI ✓✓		
	1.2.5	Rural ✓✓	(5 x 2)	(10)

- 1.3 1.3.1 C ✓✓ Stabilising markets using monetary and fiscal policy
- 1.3.2 G ✓✓ Total value of spending inside the borders of a country
- 1.3.3 B ✓✓ Benefits enjoyed by someone other than the firms producing the goods
- 1.3.4 E ✓✓ Large scale production results in lower unit costs
- 1.3.5 H ✓✓ Absence of restrictions on imports and exports
- 1.3.6 I ✓✓ A drastic measure to restrict imports
- 1.3.7 D ✓✓ Research on tourism is done through this office
- 1.3.8 A ✓✓ The main spin-off benefit derived from tourism (8 x 2) (16)

TOTAL SECTION A: 50

SECTION B**QUESTION 2**

- 2.1 2.1.1 Money ✓✓
- 2.1.2 Trough ✓✓
- 2.1.3 Laffer ✓✓
- 2.1.4 Extrapolation ✓✓
- (4 x 2) (8)
- 2.2 • Provides government with additional funds. ✓✓
- Broadens the tax base which increases government revenue. ✓✓
- Improves the efficiency of the economy. ✓✓
- Attracts foreign investment. ✓✓
- Decreases pressure on the government budget. ✓✓
- Promotes black economic empowerment. ✓✓
- Reduction of personal income tax and public debt. ✓✓ Any (3 x 2) (6)
- 2.3 2.3.1 The multiplier shows how an increase in spending (injection) produces a more than proportional increase in national income ✓✓✓ (3)
- 2.3.2 Household ✓✓
- Business ✓✓ (4)
- 2.3.3 Indicates all points where income = expenditure / 45° line / Keynesian equilibrium ✓✓ (2)
- 2.3.4 20 bn ✓✓ (2)
- 2.3.5 $M = \frac{1}{mps} = \frac{1}{0.4} \checkmark = 2.5 \checkmark$
- 2.5 x 10 bn ✓ = 25 bn. ✓✓✓ (6)
- 2.3.6 The larger the MPC the bigger the multiplier and visa versa ✓✓✓ (3)

- 2.4
- Inefficiency means that goods and services are not provided in the desired quantity and quality ✓✓
 - Public goods are efficiently provided if Pareto-Efficiency is achieved i.e. it is impossible to make somebody better off without making the other worse off ✓✓
 - Objectives like housing, health, employment etc are not always possible because of limited resources ✓✓ and serious structural weakness in the economy ✓✓

The following aspects contribute to inefficiency:

2.4.1 BUREAUCRACY ✓✓

- There is too much rules and procedures (red tape). ✓✓
- Officials focus on following rules such that they are indifferent to the quality of service. ✓✓
- Sometimes they are insensitive to the needs of the client. ✓✓
- Policies take a long time to implement. ✓✓

2.4.2 INCOMPETENCE ✓✓

- There is a lack of skills or ability to do a task successfully ✓✓
- A reason for this could be improper qualifications, lack of training and experience etc. ✓✓

2.4.3 CORRUPTION ✓✓

- Government officials are guilty of sometimes taking bribes, commit fraud, resort to nepotism ✓✓
- Politicians sometimes promote policies, which might involve an inefficient allocation of resources in order to secure votes ✓✓
- Sometimes trade unions and business influence government to distribute resources so that they benefit at the country's expense ✓✓
(Accept any other relevant facts) (Any 8 x 2)

(16)
[50]

- 3.4
- **Oligopolies** can make economic profit in the long term. ✓✓
Businesses under perfect competition only make normal profit in the long term. ✓✓
 - It is unlikely that an **oligopoly** will produce at the lowest point of the long term average cost curve (LAC) in the same way as producers under **perfect competition**. ✓✓
 - The consumer therefore does not receive the product at the lowest possible price. ✓✓
 - Producers under **perfect competition** produce at the lowest point of the long term average cost curve (LAC). ✓✓
 - Therefore the consumer receives the product at lowest possible price. ✓✓
 - The price of the product in an **oligopoly** is higher than marginal cost. ($P > MC$) which means that the community attaches greater value to the additional unit than the resources required to produce it ✓✓.
 - Under **perfect competition** the price of the product will be equal to marginal cost ($P = MC$). ✓✓
 - The business in an **oligopoly** will tend to produce less and demand a higher price for the product than in the case of **perfect competition**. ✓✓

(Any 8 x 2) (16)
[50]

Economies of scale ✓✓

- trade causes economies of scale to be maximised and costs to be reduced. ✓✓
- It's a source of comparative advantage. ✓✓

Choice ✓✓

- trade allows consumers the choice of what to buy from the whole world, and not only domestically produce ✓✓
- Consumer welfare is increased. ✓✓

Innovation ✓✓

- free trade implies competition and a lack of free trade often leads to domestic markets being dominated by a few enterprises who avoid competition among themselves. ✓✓
- provides a powerful incentive to innovate. ✓✓
- It leads to better production methods which enables producers to cut costs and improve the quality and the reliability of goods. ✓ (8 x 2)

(16)
[50]

5.3.5 Yes ✓

- creating of employment in the rural areas. ✓✓
- income from the sale of goods/services in the informal sector. ✓✓
- sustainable form of employment. ✓✓
- GDP increases. ✓✓
- Increased standard of living. ✓✓

OR

(1 + Any 2 x 2)

No ✓

- only those in the upper income brackets benefit ✓✓
- Though the poor are part of the economy they are not active in the economy through private consumption expenditure. ✓✓
- Tourism is sometimes not sustainable ✓✓ (e.g) Soccer World Cup.
- Disposable income used to satisfy basic goods and services. ✓✓

(1 + Any 2 x 2)

(5)

5.4

- Studies, research and discussions have shown that some types of pollution have less effect than other types for future generations. ✓✓
 - Air pollution vs noise pollution ✓✓ replacing filters in factories to reduce noise pollution. ✓✓
 - Pollution can affect people ✓✓ can be reduced by various awareness programmes. ✓✓
 - (e.g.) Aerosol sprays can be replaced with ozone friendly gases. ✓✓
 - Stock pollutants are those waste products that accumulated over a period of time. ✓✓ Some waste products from production can be recycled or regenerated ✓✓
 - The presence of plastic materials has an effect on the environment ✓✓ recycling can reduce the impact. ✓✓
 - Emissions into the atmosphere ✓✓ Factories can be replaced where there is low density of population. ✓✓
- (Accept any other relevant answer.)

(Any 8 x 2)

(16)
[50]

6.4 Exogenous reasons (explanations)

- The monetarist school of thought started in 1960 by Professor Milton Friedman. ✓✓
- The classical economists believed that the markets were inherently (naturally) stable. ✓✓
- They then presented exogenous explanations (conditions that originate outside of the market system) for periodic recessions and revivals. ✓✓
- They saw these fluctuations in economic activity as temporary due to external factors. ✓✓
- (E.g.) inventions, technological innovations, natural causes etc. ✓✓
- These fluctuations can also occur because of ineffective government policy. ✓✓
- This results in fluctuations in the rate of increase in the money supply, which causes changes in the rate of increase in prices, production and employment. ✓✓

Any (4 x 2)

Endogenous reasons (explanations)

- Also known as the interventionist approach. ✓✓
- The Keynesians hold the view that markets are inherently unstable. ✓✓
These economic fluctuations are caused by endogenous (Internal) causes. ✓✓
- There is a self-correcting mechanism in the market system that acts to correct any economic boom or recession. ✓✓
- (e.g.) If business conditions improve, there will be an increase in economic output, resulting in increased interest rates, increase in imports and a fall in foreign exchange. ✓✓
- All of these factors combine to dampen the economic growth and curb the boom ✓✓
- The reverse is also true, interest rates and import rates can decrease and foreign exchange can increase, leading to a recession. ✓✓
- The Keynesians believe that these fluctuations are part of the market economy and governments have a duty to use monetary and fiscal policy to intervene. ✓✓
- When the government intervenes, this brings stability to the economy and elps to smooth out the peaks and troughs in the business cycles. ✓✓

Accept fusion of reasons (explanations)

Any (4 x 2)

(16)
[50]**TOTAL SECTION B: 150**

SECTION C**ESSAY RESPONSES**

- Should include an introduction, body and conclusion.
- For the introduction and conclusion 5 marks will be allocated.
- In addition, 5 marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

QUESTION 7**ESSAY RESPONSES****INTRODUCTION**

The balance of payments is a record of all transactions between one country and the rest of the world. ✓✓✓

(Accept any other relevant introduction)

(Max 3)

BODY

It consists of FOUR accounts: viz.

1. The Current Account ✓✓

- Merchandise (goods) imports and exports ✓✓
 - It includes transactions in movable goods that change ownership between S.A. residents and non-residents. ✓✓
- Net Gold exports ✓✓
 - Shows net foreign gold sales + the change in gold of the SARB. ✓✓
 - It is indicated as a separate item because of its importance to SA in earning foreign exchange and is the world's largest producer of gold ✓✓
- Services receipts and payments ✓✓
 - This includes transportation, travel, financial, insurance, professional, technical, recreational etc. services between South African residents and non-residents. ✓✓
- Income receipts and payments ✓✓
 - Income receipts refers to income earned by South African residents in the rest of the world and income payments income earned by non-residents from South African e.g. salaries, dividends etc. ✓✓

- Current transfers ✓✓
 - This involves transfers from SA residents to non-residents and vice versa.
 - They include donations gifts, social benefits and taxes. ✓✓
 - This figure can be negative or positive. ✓

A surplus or deficit may occur on the current account balance, depending on outflows and inflows of money. ✓ **(Max 12)**

2. **The Capital Transfer Account** ✓

- The balance shown reflects the net amount. This amount can be either negative or positive. ✓✓

The capital transfer account includes:

- Transactions and grants relating to the ownership of fixed assets and other asset transfers by migrants. ✓✓ **(Max 3)**

3. **The Financial Account** ✓

THREE categories in the Financial Account:

- Direct investments: ✓
 - Include transactions relating to investments in foreign businesses (10%+) and fixed property. ✓✓
- Portfolio investments: ✓
 - Consist of equities (ordinary shares) and debt securities (bonds or gilt-edged shares) that are not part of direct investments. ✓✓
 - These investments are mainly affected through stock exchanges ✓✓.
- Other investments: ✓
 - Consist of transactions that cannot be classified as direct investments, portfolio investments or reserves ✓✓ (4th account of BoP). E.g. trade credits, loans, currency and deposits. ✓

- With regard to each of the above liabilities, assets and net amounts are shown. ✓✓
- Liabilities that are obtained from abroad e.g. loans are positive on the South African BoP because it means that money flows into the country. ✓✓
- If assets are obtained abroad it is a negative because it means that money flows out of South Africa. ✓✓
- However it would be the opposite effect on the BoP if foreigners obtained assets (positive) in South Africa. ✓✓ **(Max 10)**

Unrecorded transactions ✓: This is an entry that is used to capture the effects of errors, omissions and timing differences ✓✓ **(Max 3)**

4. The Reserves Account

- South African foreign reserves include gold, Special Drawing Rights (SDR's), the reserve position at the International Monetary Fund (IMF) and foreign exchange currencies. ✓✓
- These are liquid assets available for financing deficits due to BoP transactions. ✓✓
- South Africa's reserves are not shown in BoP account because it represents a stock. ✓✓
- The BoP shows flows only; therefore only changes to gold and foreign reserves are shown. ✓✓
- Deficits due to BoP transactions decrease reserves and surpluses increase reserves. ✓✓

(Max 5)

Body maximum: 30

Correction of Balance of payments deficit

Using methods, which will reduce imports and promote exports, can reduce deficits. The following ways can be considered:

1. Borrowing money from the IMF ✓✓
2. Policies of export promotion and import substitution ✓✓
3. Increase in aggregate supply will reduce prices. Exports are promoted through cheaper prices. ✓✓
4. Higher interest rates help to decrease spending on imports. ✓✓ Increase in import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls. (Trade liberalisation) ✓✓
5. Exchange control that allows central banks to ration foreign exchange. ✓✓
6. Currency depreciation/devaluation makes imports expensive (reduction) exports cheaper for foreign countries. (increase exports) ✓✓
7. Increase in tax which reduces disposable income which decreases demand in imports. ✓✓
8. Reduction of reserves by SARB to correct deficits if we adopted a managed floating exchange rate. ✓✓

(Max 10)

Conclusion

The Balance of Payments will always play an important role in the economy of our country, because it clearly shows the contribution of each component (account) and in case of a deficit, which problem we will have to address. ✓✓ **(Max 2)**

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

(5)
[50]

QUESTION 8**ESSAY RESPONSE****Introduction**

The industry is in equilibrium at the price that clears the market, namely at the price at which the quantity demanded is exactly equal to the quantity offered ✓✓✓ **(Max 3)**

Body**1. In the long run, two things can change:**

1. New firms can enter the industry and existing firms can leave. ✓✓
2. All factors of production became variable and existing firms earning economic profit in the short run may decide to expand their plant size to realize economies of scale. ✓✓

2. Economic profit ✓✓

- Suppose the business's short-term plant is represented by SAC_1 . ✓✓
- If the market price is P_1 the business is making an economic profit of $P_1E_1FP_2$ with the short-term plant-size represented by SAC_1 . ✓
- At a price of P_1 the business will maximise profit in the short-term at point E_1 where the profit maximisation ($MR=MC$) applies, and the quantity q_1 will be produced. ✓✓

3. Bigger plant, lower unit cost ✓✓

- If the producer does a cost estimate, he/she will realize that, if he/she will be able to produce at a lower unit cost in the long-run, ✓✓
- As illustrated by the downward sloping portion of the LAC curve. ✓✓
- The prospect of increased profit would therefore encourage the producer to build a bigger plant. ✓✓
- The business would however not be interested in producing output levels greater than those presented by the minimum point E_2 ✓✓
- of the LAC because such output levels are only possible at higher cost levels – internal scale disadvantages cause the LAC to rise to the right of point E_2 . ✓✓

4. New entrants, increased supply ✓✓

- The economic profit that businesses make is likely to attract new businesses to the industry. ✓✓
- Because the quantity offered on the market increases as a result of expansion by existing businesses and the entry of new businesses. The supply curve on the market will shift to the right from S to S_1 and the price will drop until it eventually reaches P . ✓✓
- At the price P , which is at the same level as the minimum point of the LAC curve, total revenue ($OP \times Oq$) is equal to total cost ($Oq_2 \times q_2 E_2$) ✓✓
- And the business is making normal profit, because it is exactly covering its total cost. ✓✓

Over time all the businesses in the industry will make normal profit and will be in long-term equilibrium. ✓✓

5. Initial losses ✓✓

- Individual firms can be in equilibrium in the short run where it makes an economic profit or an economic loss. ✓✓
- These positions, however, are not sustainable in the long run under conditions of perfect competition. ✓✓
- If the market price is below the minimum point of the long-term average cost curve, the adjustment process simply works the other way around. ✓✓
- Eventually the LAC curve will also form a tangent with the demand curve and the businesses that have remained in the industry will be making normal profit. ✓✓

6. Price in the long term ✓✓

- The above analyses leads to the conclusion that under perfect competition the price of a product in the long term will settle at a level that corresponds to the lowest point of the LAC curve. ✓✓
- A point such as E_2 represents the equilibrium point of the business in the long run. ✓✓
- The business is making normal profit and there will be no incentive to leave or enter the industry. ✓✓
- When a market price has been established under perfect competition at a level where each business is in equilibrium at the minimum point of its LAC curve and only making normal profit, the industry will also be in long-term equilibrium. ✓✓

7. Equilibrium ✓✓

- Once long-term equilibrium has been achieved, and provided that there are no changes in the technology or the factors of production, there will be no further entry or exit of businesses. ✓✓

Conclusion

Under perfect competition in the long-term, the market mechanism will lead to an optimal utilisation of factors of production due to the following reasons: ✓✓

- The output is produced at the lowest possible cost (minimum point of LAC) ✓✓
- The consumer pay the lowest possible price for the product (price = the lowest cost at which the product can be produced) ✓✓
- The price of the product = the opportunity cost of producing the product. ✓✓
- All businesses are making normal profits only. ✓✓ **(Max 2)**

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(5)
[50]

QUESTION 9**ESSAY RESPONSE****Introduction**

Social indicators are statistics that measure the level of social development and human welfare within a country. ✓✓✓ OR
(Any other relevant definition.) **(Max 3)**

Body

- The level of a country's wealth and social development can be measured by means of the Human Development Index (HDI) ✓✓
- Income distribution of a country is generally measured by the Gini coefficient ✓✓
- If the coefficient is zero, then there is perfect income equality and if it is one, it is an indication of perfect income inequality ✓✓
- This inequality is related to unequal skills distribution and a high level of unemployment ✓✓

1. Demographics:

- South Africa has a relatively high population growth rate compared with developed countries ✓✓
- A high population growth coupled with low economic growth harms efforts to improve the average standard of living of the population ✓✓
- It also places great pressure on government finances in terms of providing social services ✓✓

2. Health and nutrition:

Indicators used both nationally and internationally to monitor the health of a population:

1. Infant mortality ✓

- Measured in terms of number of infants who die before reaching one year of age per thousand live births in a given year. ✓✓
- In SA in 2002 it was 59 per thousand. ✓✓

2. Under-five mortality ✓

- Measured in terms of probability that a newborn baby will die before reaching the age of five years if subject to present age-specific mortality rates. ✓✓
- Probability expressed as number per thousand – in SA 95 per thousand in 2002. ✓✓

3. Health expenditure ✓

- Measured in terms of amount of public and private health expenditure on health care as percentage of GDP. ✓✓
- In 2001 SA's expenditure was 8.6% compared to 10.8 in high income countries. ✓✓

4. Access to safe drinking water ✓

- Measured in terms of percentage of population that has reasonable access to safe drinking water treated or uncontaminated. ✓✓
- In 2002 87% of SA population had access compared to 64% in Africa. ✓✓

5. Access to sanitation facilities ✓

- Measured in terms of percentage of population with at least adequate sanitation facilities that can effectively prevent human, animal and insect contact. ✓✓
- In 2002 67% of South African population had access to improved sanitation. ✓✓

It's an important indicator for the well-being of infants and young children. ✓✓

Two opposite nutrition conditions are relevant, i.e. child malnutrition and overweight children – both important for children under five years of age. ✓✓

6. Child malnutrition ✓

- Expressed in 2 ways: weight for age (underweight) and height for age (stunting or dwarfism). ✓✓
- Proportion of children underweight is most important indicator of malnutrition. ✓✓
- Important to monitor weight because being underweight increases the risk of death and inhibits cognitive development in children. ✓✓

7. Overweight children ✓

- Growing concern – there exists an association between obesity in childhood and high prevalence of diabetes, respiratory disease, high blood pressure and psychological and orthopedic disorders. ✓✓
- Being overweight can lead to numerous adverse health conditions which affect people's ability to work and take care of themselves. ✓✓ **(Max 12)**

3. Education:

- A higher ratio of literacy, knowledge and skills among the population is necessary. ✓✓
- This can be achieved by means of effective and appropriate education and training. ✓✓
- This will ultimately lead to increased productivity, competitiveness, national wealth and a higher standard of living per capita of the population. ✓✓
- Spending on education makes up the largest percentage of total government expenditure in South Africa and is clearly a priority. ✓✓

4. Housing and services:

- Housing: A significant proportion of South Africans are poor and cannot afford to buy residential property. ✓✓
- The government facilitates home ownership by means of a subsidy system and loans from the private sector. ✓✓
- Factors hindering housing delivering and home ownership in South Africa include: high levels of unemployment and a very skew income distribution. ✓✓
- Services: The General Household Survey was developed to measure the level of development and performance of various government programmes and projects. ✓✓
- One of the purposes of the GHS is to measure development indicators in the country e.g. access to basic services such as piped water, electricity, refuse removal. ✓✓
- A number of services are vital to enhance people's lifestyles namely:
 - Electricity – increased from 50% in 1995. ✓✓
 - Refuse disposal – households in SA has access to refuse removal by local authorities once a week. ✓✓
 - Water supply – some 86% of households had access to clean water in 2004. ✓✓
 - Sanitation – some 57.1% of households in SA had access to flush or chemical facilities in 2004. ✓✓

5. Urbanisation:

- Can be described as a worldwide process of transformation whereby communities change from a rural to an urban place of residence. ✓✓
- Urban areas are usually faster growing and are normal feature of economic development. ✓✓
- More employment opportunities exists, higher wages and other perceptions of a better life in the city. ✓✓
- Urbanisation points out to governments and developers that land has to be provided for a variety of purposes and services. ✓✓ **(Max 40)**

Conclusion

From the above discussion it is clear that social indicators play a significant role in South Africa. It is therefore of the utmost importance that we should study their uses in depth.

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(5)
[50]

QUESTION 10**ESSAY RESPONSE****Introduction**

Definition – inflation is a sustained and a significant increase in the general price level over a period of time. ✓✓✓

- Price changes in the general price level are measured by means of price indexes. ✓✓✓
 - An index shows average changes in price, quantity or value of a group items over a period of time. ✓✓✓
 - The inflation rate is calculated by comparing the average of all the monthly indexes in a particular year with the corresponding averages for the previous year. ✓✓✓
- (Max 3)**

Body**Kinds of inflation**(a) Consumer inflation ✓

- *CPIX inflation* ✓ - it calculates the inflation rate excluding the effect of mortgage bond (housing loan) interest rates. ✓✓
- *Headline inflation* - it represents the cost of the shopping basket of goods and services of a typical or average South African household. ✓✓
- *Core inflation* ✓ - excludes items from the CPI basket that have highly volatile prices and items with prices that are affected by government intervention and policy. ✓✓
- *Administered prices inflation* ✓ - these are prices of goods and services that are set by government or controlled by government appointed authorities. ✓✓

(b) Producers inflation ✓ - measured by the production price index (PPI) and measures the cost of production. ✓✓(c) All-inclusive inflation ✓ - the implicit GDP deflator is simply the ratio of the GDP at current prices to the GDP at constant prices for a specific year. ✓✓(d) Hyperinflation ✓ - a very high rate of inflation when the levels are rising so rapidly that people are losing confidence in the value of money. ✓✓(e) Stagflation ✓ - refers to a condition of stagnation of economic growth (low growth and unemployment) and high rates of inflation. ✓✓(f) Deflation ✓ - when prices of goods and services decrease continuously over a long period of time. ✓✓

(Max 10)

Characteristics

(a) Demand-pull inflation✓

- There is an exceptionally high demand for goods and services relative to a small supply which results in price increases.✓✓
 - Demand-pull inflation occurs when the aggregate total demand for goods and services increases, while the aggregate supply remains unchanged (or the demand increases more than the supply.)✓✓
 - Businesses and government also participate in the market on the demand side and are thus also responsible for the increases in the price level.✓✓
 - Foreigners contribute to demand-pull inflation because of their demand for goods and services and place a strain on the limited production and supply, hence increasing prices.✓✓
- (Max 10)**

(a) Cost-push inflation✓

- Is triggered by increases in the cost of production, which push up the general price level of goods and services. ✓✓
 - An increase in labour costs (higher wages) is a cost item for the business. The cost is added to the price of goods and services and therefore causes cost-push inflation.✓✓
 - Producers also contribute to cost-push inflation through increasing their profits and increasing the purchase prices of their products relatively more than the costs.✓✓
 - By increasing VAT, the state can contribute to cost-push inflation.✓✓
 - Expensive imported products, especially intermediate goods can increase the price of finished goods.✓✓
 - Natural disasters such as floods and droughts and HIV/AIDS can increase the cost of production and the prices of the final products.✓✓
- (Max 10)**

•

Role of the SARB

- A *fine balance* must be maintained between goods and services and the monetary sector of the economy.✓✓
- It is the responsibility of the monetary authorities to adjust the quantity of money to the *needs of the economy*.✓✓
- Inflation caused by excess demand can be curbed if the monetary authorities *reduce the money supply*.✓✓
- The SARB can *raise the repo rate* (bank rate) and this will encourage savings.✓✓
- The granting of *credit* through banks can also be reduced by the SARB.✓✓
- The SARB can apply *moral pressure* on financial institutions to be more careful when granting credit.✓✓
- Relaxing *exchange controls* is also often mentioned as a measure to combat inflation.✓✓

(Max 10)**Conclusion**

- For consumers, unions and politicians the CPI and CPIX are by far the most important, since these indexes relate to their cost of living (or the purchasing power of their incomes).✓✓
- It affects the interest rate policy of the SARB, which further affects consumers' cost of living.✓✓

(Max 2)

(Accept any relevant 'new' information.)

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(5)
[50]**TOTAL SECTION C: 100****GRAND TOTAL: 300**